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REPORT OF THE PROVINCIAL AUDITOR

TO THE LEGISLATIVE ASSEMBLY

FOR THE

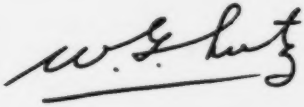
YEAR ENDED MARCH 31

1982

To the Members of the Legislative Assembly

I have the honour to submit to the Legislative Assembly, this report, upon the examination of the accounts of the Government of the Province of Saskatchewan for the fiscal year ending March 31, 1982, to be laid before the Assembly in accordance with the provisions of Section 26 of The Department of Finance Act.

Respectfully Submitted,



Regina, Saskatchewan,
February 11, 1983.

W. G. Lutz, F.C.A.,
Provincial Auditor.

REPORT OF THE PROVINCIAL AUDITOR
1982

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REPORT OF THE PROVINCIAL AUDITOR TO THE LEGISLATIVE ASSEMBLY FOR THE FISCAL YEAR ENDED MARCH 31, 1982

INTRODUCTION

Sections 20 to 32, inclusive, of The Department of Finance Act, R.S.S. 1978, govern the appointment of the Provincial Auditor and his staff, the powers of the Provincial Auditor and his responsibilities to audit and report. These sections of The Department of Finance Act are included in the Appendix to this report.

In compliance with section 26 of The Department of Finance Act, my Report for the fiscal year ended March 31, 1982 is presented herewith.

The principal financial statements of the Province of Saskatchewan for the fiscal year ended March 31, 1982, which have been prepared by the Department of Finance in accordance with the provisions of section 66 of The Department of Finance Act and appear in Volume I of the Public Accounts of Saskatchewan, have been examined and reported upon by me as required by section 25 of The Department of Finance Act. Further observations on the principal financial statements are contained in section 3 of this report.

I would like to express my appreciation for the co-operation I received during the year from officials and staff of departments, agencies and crown corporations as well as for the co-operation I received from private auditing firms. I wish also to extend a special acknowledgement to the members of my staff for their dedication and diligence throughout the year.

1.

CURRENT ISSUES OF IMPORTANCE

As the Officer of the Legislative Assembly whose duty it is to examine all government financial records, I have become deeply concerned over my present ability to serve the Legislative Assembly in a manner necessary to effectively assist the Assembly in holding the government accountable.

In particular I am concerned with the following matters:

- Current legislation does not provide sufficient independence from the central agencies of the government to ensure that my office is not subject to pressure from the Administration which would reduce my ability to serve the Legislative Assembly.

- Current legislation does not provide the necessary authority for me to fully discharge the Legislative Assembly's audit and reporting requirements pursuant to Sections 22 and 26 of The Department of Finance Act, where another auditor has been appointed by the government to audit the accounts of an agency of the crown.

- Current legislation does not explicitly provide that I examine, ascertain and report to the Legislative Assembly whether there has been due regard for economy, efficiency and effectiveness in the administration of the government's affairs, thus enabling me to serve the Public Accounts Committee with respect to its mandate in this regard.

On October 1, 1982, in response to a request from the Minister of Finance, I submitted proposed legislation which, in my opinion, would eliminate these concerns. It is my sincere hope that the Legislation I have proposed will be enacted as submitted. My concerns are more fully discussed later in this section of the report.

1.1 Accountability in the Public Sector

Accountability is the obligation to answer for a responsibility that has been conferred and presumes the existence of at least two parties: one who allocates responsibility and one who accepts it with the undertaking to

report upon the manner in which it has been discharged. As an analogy in the private sector, where the owner of a business hired a manager to operate that business, it would be expected that the manager would furnish the owner with a report on his stewardship of the business operations entrusted to him.

In the public sector the Legislative Assembly confers upon the Government the responsibility to administer the expenditure of public funds. In return the government is required to furnish the Assembly with reports on its stewardship of the public resources entrusted to the various entities created by statute to administer the resources.

The Lambert Royal Commission defined accountability in the public sector as "the fundamental prerequisite for preventing the abuse of delegated power and for ensuring, instead, that power is directed toward the achievement of broadly acccepted (national) goals with the greatest possible degree of efficiency, effectiveness, probity, and prudence".

The Kelly/Hanson study, a research study of the Canadian Comprehensive Auditing Foundation, expanded this definition by adding that "the requirement that government be accountable is the price exacted by a democracy for the gift of power".

The study also indicated that legislative control over fiscal matters is also important from a constitutional point of view. Quoting from Basil Chubb, in The Control of Public Expenditure the study stated: "It has been a major fact of English political and constitutional history that the management of finance is a basic essential of responsible government.....[the control of taxation and supply by the House of Commons] ensures that governments are responsible and will obey, though they lead, and will answer for their actions, though they command majorities. The practice of popular party government has not invalidated this control, which inheres in the House as a body". This concept holds as true in Canada as in Britain, on whose parliamentary institutions our own are closely modelled, the study noted, and accordingly, although its application may fall short of the ideal, the principle of legislative control over finances is firmly and clearly established.

1.1.1 The Accountability Cycle

The manner in which legislatures hold governments accountable can be viewed as steps in a cycle. The first step involves legislative scrutiny of government spending proposals

as well as any new taxation or other financing measures. The second step involves the preparation of accountability or stewardship reports by the government for the benefit of the legislature. In order that legislators can appropriately examine government administrative practices, they must examine officials who have been delegated responsiblity for administrative decisions in a forum which, unlike the full legislature, is not designed to be adversarial in nature. Each jurisdiction in Canada has recognized this and a legislative committee has been formed to perform this function - the Public Accounts Committee. In order to assist the Public Accounts Committee in its work, there is a need for an auditor who is independent of the government and reports directly to the Legislature. It is the auditor's job to offer a professional opinion on the accounts submitted to him for audit and to identify deficiencies in administrative practices which warrant examination by the Public Accounts Committee.

1.1.2 Role of the Legislative Auditor

Audit is a process that is superimposed on the accountability relationship. It is carried out to establish that a report on the responsibility assumed is a correct or fair one and is usually performed by a third party, serving the interests of the party who delegated the responsibility. Where disclosure takes the form of one or more statements summarizing a mass of transactions, the report of the auditor will, in some form or other, either confirm that the information is correct or fairly presented, or state in what respect it is not. In making such a report, an auditor performs an attest function; that is he attests to the correctness or fairness of the statements presented and thereby adds credibility to the statements.

In the Saskatchewan Public Sector the third party referred to in the preceding paragraph, who serves the interest of the party delegating responsibility (Legislative Assembly), is the Provincial Auditor.

In addition to the traditional role of attesting to financial statements the Provincial Auditor is required by statute to examine the systems of internal control in all agencies of the crown in order to ascertain whether or not the rules and procedures are sufficient to:

1) Maintain an effective check on the assessment and collection of revenue;

2) Ensure money is expended for the purpose intended by the Legislature and the expenditures have adequate statutory authority;

3) Safeguard and control the assets of the Province;

4) Ensure that the accounts are faithfully and properly kept;

and he is to report annually to the Legislative Assembly the results of such examinations.

Over the past several years a number of jurisdictions have expanded the mandate of their Legislative Auditors. This expanded mandate requires the Legislative Auditor to examine the management control systems that relate to economy, efficiency and effectiveness and to include in his annual report the results of these examinations.

The term comprehensive auditing is sometimes used to describe this additional mandate. The term comprehensive auditing, however, means an audit which is conducted for all of the following purposes:

1) Attesting to the financial statements;

2) Reporting upon the system of internal control;

3) Reporting upon the management control systems to ensure economy, efficiency and effectiveness.

My present mandate explicitly encompasses items 1 and 2 above.

1.2 Independence of the Legislative Auditor

The Legislative Auditor's independence should be clearly established both in appearance and in fact. Independence is an essential attribute of auditors, within and outside government, who are expected to carry out an attest function. If auditors' reports and opinions are to be regarded as dependable, they must be prepared and presented without bias. Independence thus implies impartiality, intellectual honesty and recognition of an obligation for fairness not only to those whose operations are subject to audit, but to all who may rely on an auditor's opinion and report.

These qualities should, of course, be present in the legislative provisions governing the Legislative Auditor appointed in Saskatchewan. This auditor must be independent, and must be seen to be so by all those whom his work affects, including the general public. In particular he must not be subject to any possible pressure from the administration that would erode such independence.

Presently the Provincial Auditor is required to request all of his resources through various central agencies of the government in the same manner as any line department.

As an analogy, the Saskatchewan method of providing resources to the Provincial Auditor would be similar to the owner of a business hiring an employee and asking the employee to advise him whenever the manager has made a mistake and then having that employee being dependent on that manager for his salary increases, benefits and any additional personnel and resources necessary to discharge his duties.

This present situation does not facilitate the real or perceived independence of the Provincial Auditor.

In recent years, other jurisdictions have recognized the need to provide both real and perceived independence to their Legislative Auditors and have enacted legislation to provide greater independence. In Saskatchewan recently two other officers of the Legislative Assembly, the Clerk of the Legislative Assembly and Legislative Librarian, have been provided with greater independence by obtaining their resources through a board of the Legislative Assembly, being the Board of Internal Economy.

One step toward achieving perceived independence is to have a separate act dealing with the Legislative Auditor. Any new legislation should include provisions to ensure the personal independence of the Provincial Auditor and to provide him with the freedom necessary to develop and operate the kind of professional organization required for the discharge of his responsibilities.

In addition to the personal independence, he should have managerial independence by requesting his resources, as is done by other officers of the Legislative Assembly, through the Board of Internal Economy.

1.3 Auditors Other Than the Provincial Auditor Auditing Saskatchewan Crown Agencies

Over the past few years a portion of the requirement to audit some crown controlled organizations has been removed from the Provincial Auditor and placed with private sector auditors. This was accomplished through an amendment to The Department of Finance Act which exempted the Provincial Auditor from having to examine the accounts of a Saskatchewan Crown Agency if the Lieutenant Governor in Council or the Treasury Board had appointed another auditor to audit and report.

This method of appointing other auditors results in this auditor being responsible for one portion of the audit requirement of the Legislative Assembly, which is the auditor's attestation to the financial statements, and the Provincial Auditor being responsible for the other portion of the audit requirement of the Legislative Assembly, which is to advise the Assembly on the operations of the systems of internal control and legislative compliance in that agency being audited by another auditor.

The result of this split audit responsibility could result in considerable duplication of audit effort if the Provincial Auditor audited the accounts of an agency audited by another auditor for the purpose of discharging his statutory responsibility to report upon the system of internal control and legislative compliance for that agency.

Thus far, no such duplicate audits have been conducted by the Provincial Auditor nor have resources been requested to conduct such an audit.

In order to fulfill the statutory obligation of the Provincial Auditor to report on the systems of internal control and legislative compliance, I have requested that other auditors report certain matters to me for inclusion in my Annual Report to the Legislative Assembly.

Current legislation, however, does not provide me with the necessary power to specify how the audit is to be conducted nor to specify the report to be made to me by another auditor in order that I might ensure uniformity in the manner in which audits are conducted and uniformity of reporting to the Legislative Assembly. I have found the present situation to be unsatisfactory, and accordingly I am unable to discharge

fully my responsibilities under The Department of Finance Act relative to a crown agency where the audit of that agency has been conducted by another auditor.

An alternative funding exercise was proposed by the Budget Bureau for my office for the 1983/84 fiscal year.

In this exercise, the Budget Bureau proposed more privatization of crown agency audits without addressing the Legislative Assembly's audit and report requirements and, accordingly, incorrectly identified in the proposal the overall costs of such an alternative to the people of Saskatchewan and also incorrectly identified the number of personnel which might be reduced from my office if the proposal is acted upon. If the proposal is acted upon, it is my opinion that the overall costs of such audits will be increased or, with my present statutory authority and the proposed resources that would be available under this funding exercise, there will be additional government agencies where I will be unable to fully discharge the Legislative Assembly's audit and report requirements pursuant to Section 22 and 26 of The Department of Finance Act.

My inability to discharge the Legislative Assembly's audit and reporting requirements results in insufficient information being made available to the Legislative Assembly to assist it in holding the government accountable.

The Crown Investments Review Commission has stated that responsibilities of boards of directors should include "influence in selecting auditors to be appointed by Cabinet". Irrespective of the degree to which boards of directors of crown corporations may be provided with greater day to day operating autonomy (with respect to ministerial involvement), it remains crucial that the accountability of these corporations to the Legislative Assembly for their administration of public monies and resources not be diminished.

My proposed legislation contains provision for the Provincial Auditor to audit or cause to be audited all crown agencies. The effect of this provision would be to permit the status quo to be maintained with respect to existing appointments of other auditors except that other auditors would be engaged by and take direction from the Provincial Auditor, as is the case in Alberta. Thus, the Legislative Assembly would receive the same audit information as if I had conducted the audit.

2.

RESULTS OF EXAMINATIONS

In this section of my report comments are made on the results of examinations as conducted by my staff pursuant to the provisions of The Department of Finance Act. For the last several years, my office has emphasized systems based auditing in the course of performing the various audits for which I am responsible. This methodology entails a review and evaluation of internal control systems implemented by management to safeguard assets, ensure compliance and ensure the reliability of accounting records. Transaction tests are normally limited to those necessary to establish that identified control strengths can be relied upon or conversely to establish the extent to which control weaknesses may have permitted errors to occur.

The observations made in connection with audits performed in the above described manner have traditionally been used as the basis for reporting the results of my examinations. These observations are initially reflected in management letters generally addressed to the Minister in charge of the entity audited. As in the past, a compendium of these management letters has been prepared for the use of the Standing Committee on Public Accounts. The observations which follow are the more significant matters included in these letters, together with certain cases which I am required to report under Section 26 of The Department of Finance Act.

2.1 Comments on Systems to Ensure That Money Has Been Applied to the Purposes for Which It Was Appropriated by the Legislature and the Expenditures Have Adequate Statutory Authority

2.1.1 Virements

In previous years' reports, I indicated that differing legal interpretations had been received by my office and by the Comptroller's Office concerning the matter of virements and whether that instrument constitutes adequate authority to make payments in certain cases where there is a statutory restriction that payments be made from monies appropriated by the Legislature for the purpose. Because The Department of Finance Act requires me to examine and ascertain whether, in my opinion, money expended has been applied to the purposes for which it was appropriated by the Legislature, I sought clarification of this matter from the Legislature. I

suggested that consideration be given to the passage of an amendment to The Department of Finance Act which would give statutory recognition to the virement procedure on a continuing basis, but would also contain provisions similar to those for special warrants, thereby according virements the status of deemed appropriations and thus making them subject to legislative review and debate and a matter of public record when issued.

It should be remembered that an underexpended sub-vote may result from a change in the government's fiscal plan and similarly a proposed increase in spending in another sub-vote may also represent a change in the government's fiscal plan. To the extent that changes to the government's fiscal plan are authorized by means of the virement procedure, these changes are not presently subject to legislative review and debate and are not authorized by Order-in-Council. Thus they are not a matter of public record when issued.

I note that Bill 44, which received royal assent on December 17, 1982, gives statutory recognition to the virement procedure on a continuing basis but does not contain provisions similar to those for special warrants. I recommend that consideration be given to amending this legislation so as to provide the Legislature with equivalent mechanisms for review and approval as presently exist for special warrants.

2.1.2 Department of Social Services - Day Care Program

In my management letter to the Department of Social Services on the Day Care Program for the year ended March 31, 1982 it was pointed out to the Department that steps should be taken to:

- improve the checking done by the assessing clerks in preparing the day care subsidy payments;

- reinstitute the requirement for parents to sign attendance reports to acknowledge receipt of day care services;

- perform additional income verification procedures as are performed in the Department's Family Income Plan;

- develop standards to assess whether overpayments remain within tolerable levels.

In my opinion, the Department has not performed sufficient procedures to ensure that only eligible applicants have received prescribed benefits under this program.

2.1.3 Legal Assistance

Section 10 of The Community Legal Services (Saskatchewan) Act states:

> "The Commission shall:
>
> (1) subject to the other provisions of this Act and to the regulations, establish procedures to determine eligibility of applicants for legal services."

The regulations issued pursuant to The Community Legal Services (Saskatchewan) Act state:

> "2(1) Subject to the Act, an applicant is eligible to receive legal services under the plan:
>
> (a) when he receives all or part of his income pursuant to social assistance;
>
> (b) when he does not receive any of his income pursuant to a program of social assistance and he has an income equal to or less than that which he would be entitled to receive under social assistance; or
>
> (c) when the obtaining of legal services outside of the plan would reduce the income of an applicant to a point whereby he would become eligible for the benefits under social assistance.
>
> (2) A client who is eligible pursuant to subsection (1)(c) may be required by the commission to make a contribution towards the payment of the costs of the legal services rendered on his behalf;
>
> (3) Contributions are payable to the commission and their amount shall be fixed by an eligibility officer;
>
> (4) No contributions shall be in amounts so large as to reduce the income of the applicant to a level where he would be eligible for social assistance;

(5) A group, organization or society, the membership of which is predominantly eligible persons, shall also be eligible to receive legal services under the plan;

(6) An applicant shall not be required to dispose of his principal place of residence or assets necessary to maintain his livelihood."

During the audit of the Commission, it was determined that the Commission did not maintain records to ensure that only eligible recipients were receiving eligible services. The Commission has delegated the responsibility for determining eligibility of recipients and maintaining the records, to the various local boards, without making provision for the appropriate audit of these records at the local boards, to ensure that the money provided by the Legislative Assembly is being used to provide services within the provisions of The Community Legal Services (Saskatchewan) Act and the regulations under that Act.

Because of the circumstances described above, I was unable to determine that only eligible persons received only eligible services. Therefore, I was unable to ascertain if the appropriation of The Saskatchewan Community Legal Services Commission was applied in a manner authorized by the Legislature.

This matter has been previously reported to the Legislative Assembly in my 1979, 1980 and 1981 annual reports. I am advised by the Chairman of the Commission that a new system was implemented during the 1983 fiscal year to improve the Commission's control over eligibility.

Further, during the examination of one of the legal aid clinics, it was observed that the Saskatoon Legal Assistance Clinic Society misplaced $500 of solicitors' trust monies. The $500 was subsequently disbursed from funds provided to the Society by the Commission for the purpose of providing legal aid. It would, therefore, appear that there was not authority for this payment.

I have been notified by the Commission that the $500 has subsequently been recovered.

2.1.4 Conditional Grants and Loans

The Department of Industry and Commerce administers a number of programs to provide grants and loans which, either by the regulations or agreements, impose certain conditions which are required to be fulfilled by the recipient to ensure that the money received is applied to the purpose intended by the Legislature and, in some instances, to ensure that any assets acquired from the money received are adequately insured until such time as all conditions of the grants and loans are complied with.

During the year under review, my representatives were not able to examine a formal policy for the collection of loans, or a formal policy to ensure compliance with conditions attached to certain grants and loans for the following programs:

i) Employment Opportunities Program
ii) Employment Support Program
iii) Small Industry Development Program
iv) Main Street Development Program

It is my opinion that the procedures applied by the Department could be improved to ensure compliance with the regulations and agreements so as to ensure that the money received is used for the purpose intended by the Legislature and to ensure that public property is safeguarded.

This matter was reported to the Legislative Assembly in my 1980 and 1981 annual reports.

2.1.5 Mortgage Subsidies - Public Housing

The Department of Northern Saskatchewan administers a Public Housing program through the Northern Housing Advance Account. I have commented in management letters issued for the last three years on the procedures in place to ensure that correct subsidies are provided to applicants.

Public Housing subsidy assistance is determined based on annually completed subsidy applications. The amount of subsidy depends upon the anticipated income of the applicant and the number of dependents he or she has. No verification is performed to ensure that the income declared by the applicant is accurate. When applications are processed for subsequent years, it was suggested that it should be possible to compare anticipated income for a year with actual income,

with adjustments being made for incorrect subsidies paid. This procedure was not being performed by advance account personnel.

The foregoing procedures could be improved to ensure that only eligible applicants receive eligible subsidy assistance.

This matter was reported to the Legislative Assembly in my 1981 report.

2.2 Comments on Systems to Ensure That Essential Records are Maintained and the Rules and Procedures Applied are Sufficient to Safeguard and Control Public Property

2.2.1 Public Housing - Department of Northern Saskatchewan

Pursuant to an agreement dated April 2, 1979 between the Government of Canada, Canada Mortgage and Housing Corporation (CMHC) and the Province of Saskatchewan, the Department of Northern Saskatchewan is responsible to develop and finance housing projects for residents of northern Saskatchewan with the costs and revenue being shared 75:25 by CMHC and the Province. Section 10 of this agreement indicates that the estimated costs of any housing project proposed under this agreement are to be agreed upon by CMHC and the Province, together with the design plans and specifications of such projects, before the construction starts. My representative observed that, while there were procedures to comply with this requirement, there were no formal procedures to ensure that any anticipated costs in excess of the originally agreed upon project costs are approved by all parties prior to such costs being incurred. This weakness has resulted in an account receivable of approximately $5.0 million for costs in excess of originally agreed upon costs being recorded as due from CMHC, the total collectability of which is uncertain. The effect of this lack of appropriate approval procedures is a possible loss to the Province and a reservation in my opinion on the financial statements of the Northern Housing Advance Account. See also section 2.5 of this report for a discussion of this reservation in my auditor's report.

In addition, the Department could improve its collection of payments due from occupants of public housing. The Department of Northern Saskatchewan policy #50.10 (Public Housing Credit and Collection Policy) dated June 1, 1977 states that: "Where the account is not current six months following the omitted payment it shall be passed to the credit committee who will, except in unusual circumstances, arrange for foreclosure

proceedings to commence" and further states "the credit advisor shall provide monthly reports detailing all accounts three months in arrears and over, outlining the circumstances and the actions taken to date."

During the course of the examination my representatives observed that this collection policy was not being followed and also observed that there were numerous accounts which were more than six months in arrears. The Province's 25% share of arrears is approximately $894,000 and an allowance for non-collection has been reflected in the current year's financial statements for this amount.

In addition, there is a problem in the collection of down payments to be received prior to occupancy of public housing units.

Section 10(e) of the agreement between CMHC and the Province dated April 2, 1979 requires that a down payment of not less than $500 be made by the client, in the form of cash, sweat equity or of deeded land or any combination thereof, prior to the occupancy of a new housing unit.

At the year end, it was observed that there were 91 individuals who did not pay the required down payments totalling $36,000 before obtaining occupancy of the housing units.

It is my opinion that the rules and procedures applied for the administration of this public housing program have not been sufficient to adequately safeguard the assets of the province.

2.2.2 Economic Development Loans - Department of Northern Saskatchewan

In lending organizations, it is important that a procedure or system for loan monitoring be developed which will provide information on an ongoing basis to permit the monitoring of the collectability of the loans and of the security underlying the loans.

Using the foregoing criteria, the audit of the Loans Division of the Northern Saskatchewan Economic Development Advance Account was carried out and the following observations were made:

1. The underlying security for many of the commercial loans is moveable equipment. Most of this equipment is saleable and is located throughout the northern portion of the Province. In some cases chattel mortgages have not been registered against this equipment and there is no adequate record maintained of the description, location, condition, registration or value of the equipment. Furthermore, there is no policy for the periodic inspection of equipment by either the collections manager or field representatives.

2. The prescribed system requires that quarterly statements be mailed to clients in order that they may examine their current status and that they may be able to check that their payments were properly credited to their accounts. At the date of our audit attendance in September, 1982, statements had not been mailed since December, 1981. As a result of this omission, clients do not receive a current status report. In addition, since field representatives can collect payments in the field the lack of statements to debtors reduces the assurance that all payments received have been recorded.

3. In many cases funds were being disbursed prior to the loan applicant having fulfilled all required conditions of the loan agreement. There was no evidence on the files examined to indicate that these requirements are reviewed prior to or subsequent to the disbursement of funds.

4. The documentation in many of the files was incomplete as previously described in item 1. In addition, the following information which should be required in most files was not always present:

   a) details of visits to the client;

   b) current financial statements or financial information pertaining to the business operated by the client;

   c) insurance policies pertaining to the security for the loan.

5. Transactions are not being recorded promptly in the accounts. The accounting system consists of a synoptic prepared from vouchers issued for advances and receipts issued for remittances received. The synoptic is to be

posted to loan ledger cards. Monthly interest charges are to be recorded on the cards so that the status of an account can be readily ascertained. At the time of our audit in September, these records had not been written up beyond April 30. This hampers collection efforts, as collection personnel cannot determine whether clients have continued to make payments or have ceased remitting.

6. Periodic balancing and reconciling procedures are not in effect. To ensure that proper records are being maintained, the ledger cards should be added and agreed to the totals shown in the general ledger. Failure to reconcile subsidary ledgers can result in a lack of reliability with respect to the information produced.

7. I was not able to examine a formal collection policy.

It is my opinion that the rules and procedures applied in connection with the Economic Development Loans are not sufficient to adequately safeguard these assets of the Province.

Further, due to the seriousness of these problems it was necessary to issue a reservation in my auditor's report on the financial statements for the Advance Account for the year ended March 31, 1982. This reservation is discussed further under section 2.5 of this report.

2.2.3 Construction of Northern Schools - Department of Northern Saskatchewan

The Department of Northern Saskatchewan, as part of its mandate, constructs schools in Northern Saskatchewan. During the course of the examination of the Northern Construction Advance Account it was observed that there was no evidence that changes to original estimated amounts to construct schools were approved by the appropriate parties before costs were incurred. Specifically, it was observed that there was no evidence that the costs in excess of the originally agreed upon amounts to construct schools for the Northern Lights School Division #113, which were in turn funded by the Federal Government, were approved before costs were incurred. The Department has incurred costs of approximately $2 million in excess of the originally agreed upon amounts for the construction of these schools and the federal government has not acknowledged indebtedness beyond the amounts originally agreed upon. Accordingly, the total collectability of this

receivable is uncertain, with a possible loss to the Province. This uncertainty has resulted in a reservation of my opinion on the financial statements of this advance account, which appears in section 2.5 of this report.

2.2.4 Saskatchewan Computer Utility Corporation

In a management letter to the Saskatchewan Computer Utility Corporation for the 1981 year, I outlined numerous internal control weaknesses and certain other accounting matters which required the attention of corporation officials. Some of the significant matters, which were commented upon, were the following:

- there was an absence of suitably qualified supervisory accounting staff who could effectively direct subordinate staff and become actively involved in the implementation and maintenance of effective financial accounting systems;

- corporate borrowings, which were made without Board or Order-in-Council approval (see section 2.4.4(ii)), contributed towards the existence of large cash balances which were maintained by the Corporation throughout the 1981 year, earning a nominal rate of interest;

- several deficiencies in the fixed asset accounting system necessitated that considerable time be spent by audit staff recompiling accounting records so as to substantiate the recorded balances of fixed assets, accumulated depreciation and depreciation expense at year end.

The corporation, in its reply to my management letter, indicated that corporation management had approved the hiring of additional qualified staff and, when these were in place, significant improvements in the finance and accounting area would start to be evident.

2.2.5 Saskatchewan Housing Corporation

In my 1981 report to the Legislative Assembly, I made reference to a management letter issued to the Saskatchewan Housing Corporation in which I outlined numerous internal control weaknesses and certain other accounting matters which required the attention of corporation officials. I emphasized the lack of a sufficient number of suitably qualified

personnel in the finance department of the corporation which reflected my general concern that organizational development within that department had not kept pace with the growth in Corporation assets and the increase in the number and variety of programs administered.

In a memorandum on internal control and other accounting matters, issued in May, 1982, I noted that significant improvements had resulted from the restructuring of the finance department and the conversion of five positions from temporary to permanent status, however I indicated it was apparent that additional resources were required to enable the corporation to develop measures to fully resolve the various internal control weaknesses and other accounting issues outlined in the memorandum, as well as to manage the significant cash flows under its administration and to appropriately plan the management of increased program activity.

2.2.6 Cash Handling Procedures

To provide direction with respect to cash handling procedures, Treasury Board has issued regulations which outline procedures, which, if followed, should achieve the required control over cash. Treasury Board has provided for an exemption from these rules and procedures if the Comptroller of the Treasury considers an exemption appropriate.

Management letters issued to fifteen departments and agencies revealed that the governing regulations were not being fully complied with nor was there evidence of an exemption being granted by the Comptroller of the Treasury.

An important element in any system of internal control is careful supervision by management. In larger organizations, no one manager can have direct personal knowledge of every facet of the organization. Supervisory responsibilities, therefore, are delegated throughout the organization. It is important, however, to retain the involvement of senior management at key spots within the internal control system to detect breakdowns in the system. Where senior management is not able to personally exercise this control, for reasons such as decentralization in larger organizations, it is usual to have an internal audit function. This internal audit function reviews and tests the systems of internal control throughout the organization to ensure compliance with senior management's prescribed procedures and reports its findings to senior management for appropriate action.

There are large amounts of revenue collected through decentralized systems. For example, the consolidated fund revenue collected by the systems at provincial courts, local registrars, sheriffs and the land titles offices by the Department of the Attorney General totals approximately $15.1 million. In addition, the Department administers significant sums of money held in trust. The controls over these revenues and trust funds would be enhanced by an internal audit division auditing the various local offices to ensure management's prescribed procedures are being complied with.

Failure to follow the prescribed rules and procedures can also result in losses to the Province such as in the following instance:

> During the course of the examination of the Department of Northern Saskatchewan, it was noted that there was no documented evidence that officials of the Department compared the amount collected by housing agents to the amount that agents had remitted to the Department.
>
> As a result of this weakness in control, three housing agents were able to withhold monies amounting to approximately $24,000, without early detection.

It is therefore recommended that action be taken to ensure that the directives of Treasury Board are followed in order to safeguard these public monies.

2.2.7 Department of Health - Branch Operations

In a management letter to the Department of Health for the 1981/82 year, I commented that management supervisory controls were not adequate with respect to the Department's operations at the Weyburn Psychiatric Centre and the Saskatchewan Hospital, North Battleford. Audit observations indicated that not all regulations administered by the Department at these locations were being adhered to nor were the internal control systems in place entirely adequate in their design and operation.

The following observations gave rise to the above comments:

- mail opening procedures were not in compliance with Treasury Board Regulations at the Weyburn Psychiatric Centre. In addition, there were inadequate control procedures governing trust fund disbursements at the Centre;

- during the year monies were loaned to staff members for short periods of time from the Weyburn Bazaar Trust Fund although such a use of the trust fund assets did not appear to be within the intent of regulations issued under The Mental Health Act;

- the Accountant's Advance Accounts at both Weyburn and North Battleford were overdrawn on several occasions during the year although the Treasury Board Regulation governing such accounts stipulates that under no circumstances is the account to be overdrawn;

- on various occasions during the year certain patient trust accounts at North Battleford contained funds in excess of $100 which were not immediately transferred to the Administrator of Estates as required by The Mental Health Regulations.

2.2.8 Mail and Telecommunications Branch

An examination of the records of the Mail and Telecommunications Branch of the Department of Revenue, Supply and Services was made during the year. During the examination, observations were made concerning certain internal control deficiencies which are described below:

(a) Postage Meter Deposit Accounts

The Mail and Telecommunications Branch maintains six deposit accounts at the Federal Post Office which are used for the purchase of postage for different classes of mail. Although Treasury Board has approved the establishment of one of the six deposit accounts, there does not appear to be similar approval for the creation of the other five deposit accounts.

The apparent intention, when these deposit accounts were established, was that they operate as imprest accounts. The basic procedure in accounting for imprest accounts is that physical evidence of drawdowns from the original advance be accumulated and used as support to periodically replenish the advance to its original amount.

My representatives observed that cheque requisitions for replenishment of five of the deposit accounts were not being properly supported by receipted postage

requisitions. Rather, replenishments were requested when a review of the ledger control cards indicated the balances at the Post Office were low.

The result of this weakness is a lack of assurance that all transactions are properly authorized and supported.

(b) Cash Receipts from Clients

The Mail and Telecommunications Branch administers ten postage meters in various government buildings throughout the City of Regina which are at times used for the purpose of providing postage services to various crown agencies located within these buildings. The branch records and bills these agencies for the postage costs of mail processed on their behalf. These agencies are instructed to make their cheques payable to the Receiver General for Canada, a/c The Postmaster. These cheques are then used to directly replenish the various postage meters as required.

My representatives observed that mail is not opened by two employees nor is it recorded immediately but rather handed over to the official responsible for the accounts receivable records and replenishing the postage meters. While these payments are posted to the individual client records and a record is kept of when and what meter the cheques were used to replenish, there is no control over all cheques received or independent reconciliation of their disposition.

As a result, there is no ready assurance that all monies due are received and are properly applied. Consequently, funds may be misappropriated or lost without subsequent detection. This weakness also constitutes non-compliance with the minimum internal control requirements of Treasury Board Regulations regarding the receipt and deposit of public monies.

It is, therefore, recommended that action be taken to ensure that the directives of Treasury Board are followed in order to safeguard these public monies.

2.2.9 Teachers' Contribution Ledger

In a management letter to the Teachers' Superannuation Commission for the year ended June 30, 1981, I reported that a

record of individual teacher's contributions for the annuity fund had not been maintained for the year under review.

These records are essential, as an individual teacher's ultimate superannuation allowance is based upon the amount of an annuity which can be purchased with the money which has accumulated to the individual's credit through the individual's contributions, matching contributions from the Minister of Finance, together with the interest the Commission is able to earn from these contributions. These records are also essential in order to accurately determine refunds of contributions and interest due to a teacher, should the teacher elect to, and be eligible to, withdraw contributions before retirement.

2.3 Comments on Systems for the Assessment and Collection of Revenue

2.3.1 Tax Assessment Activities

In my three previous reports to the Legislative Assembly, I expressed my concern with the existing levels of detailed audit coverage carried out by the Department of Revenue, Supply and Services in connection with its revenue assessment activities for Education and Health Tax, Motive Fuel Tax and Tobacco Tax. I commented that the level of audit coverage then existing did not permit audits to be performed in a reasonable period of time and that audit statistics suggested that significant revenue recoveries could be achieved with increased audit surveillance.

Upon consideration of this matter, the Select Standing Committee on Public Accounts and Printing recommended to the Legislative Assembly in its June, 1980 report "that the Department review its procedures to ensure that there is a balance between the number of detailed field audits on the one hand and the cost of the audits on the other hand so that an effective check is in place".

In my 1980 report it was indicated that I had been informed a study would be undertaken in early 1981 to provide officials of the Audit and Investigation Branch of the Department with an objective basis for evaluating the adequacy and effectiveness of audit activities actually performed.

I have examined a copy of the Department's study and in my opinion this study did not specifically address the recommendation of the Select Standing Committee on Public

Accounts and Printing to ascertain whether there is a balance between the number of detailed field audits on the one hand and the cost of the audits on the other hand. Accordingly, it is also my opinion that the results of this study have not provided the necessary information to discharge fully the recommendation of the committee or to provide sufficient evidence that either the rules and procedures presently applied, or that the rules and procedures recommended in the study, are sufficient to secure an effective check on the assessment of revenue on a cost effective basis.

I recommend that the study be continued to fully comply with the recommendation of the Select Standing Committee on Public Accounts and Printing.

2.3.2 Leases of Commercial Space - Provincially Owned Buildings

The Property and Planning Branch of the Department of Government Services has the responsibility for the leasing of retail and office space in provincially owned office buildings.

Included in the leases signed by retail tenants of the Sturdy Stone Centre in Saskatoon is a clause which states:

> "Within sixty days after the close of each Rental Year....Tenant shall deliver to Landlord (Department of Government Services) a statement showing....the Gross Sales for the preceding Rental Year, accompanied by the signed unqualified opinion of Tenant's auditor who shall be an independent Chartered Accountant....stating specifically that he has examined the report of Gross Sales of the preceding year...."

These leases state further that if the above requirement is not met the Department may take action to "examine such books and records as may be necessary to certify the amount of Tenant's Gross Sales for such Rental Year and Tenant shall on demand pay to Landlord the cost thereof".

Examination of files in the Central Services Branch of the Department revealed that, as at August 31, 1982, an audited statement of Gross Sales for the calendar year 1981 had not yet been received from nine businesses which occupied space in 1981 and which are subject to rent based on their gross sales.

Since audited statements of gross sales have not been received, as required from all tenants, I am unable to satisfy myself that all revenue due, in accordance with the terms of the leases, has been assessed.

2.3.3 Corporate Capital Tax Collections

In a management letter to the Department of Revenue, Supply and Services, I reported the following observations on the rules and procedures to secure an effective check on the collection of corporate capital tax:

- Section 24 of The Corporation Capital Tax Act states that all corporations whose fiscal year-ends fall between April 30, 1980 and July 31, 1981 shall pay, on or before the last day of the second month after their fiscal year end, any tax payable as estimated by the corporation. Corporations whose fiscal year-ends fall between August 1, 1981 and July 31, 1982 shall make monthly installments equal to 1/12 of their estimated tax liability and make their final payment within two months of their fiscal year-end. The Act also states that the corporation shall submit an annual return within six months of its fiscal year-end.

  My representatives observed that no check was made monthly to identify and follow up on corporations not remitting monthly installments or for the final payment other than a periodic review by management of the major taxable corporation's remittances. Furthermore, no regular check was made to ensure each corporation had filed its annual return by the due date. These deficiencies could result in delays in collecting tax revenue;

- Section 5 of the Act states that the amount of tax payable by a corporation bears interest from the day on which it is to be paid until it is paid. Due to the lack of timely follow up on returns, the Corporations might also not be assessed for the interest penalties, thus resulting in a loss of revenue;

- Furthermore, where it has been established by the management that an interest penalty is to be charged, the assessed corporation is not notified of the amount due.

It is my opinion that the rules and procedures applied to collect corporate capital tax could be strengthened to provide a more effective check on the collection of this tax.

2.4 Other Cases Reported Pursuant to Section 26 of The Department of Finance Act

2.4.1 Appropriations Exceeded or Applied to a Purpose or in a Manner Not Authorized by the Legislature

2.4.1.1 Department of Northern Saskatchewan - Imprest Bank Accounts

The Department of Finance Act requires the Comptroller of the Treasury to reject a requisition for payment if he is of the opinion that the payment would result in an expenditure in excess of the relevant appropriation. For most payments which represent a charge on the Consolidated or Heritage Fund, effective control is maintained by virtue of the fact that the payments are made under the direction and control of the Comptroller's Office. In special circumstances, however, a Department may be allowed to operate its own bank account to pay expenditures. These bank accounts are reimbursed periodically from the Departmental appropriation. In order to ensure that a Department does not spend more money than is lawfully available to it in the relevant appropriation, it is important that overdrafts are not allowed in these types of bank accounts.

During the year under examination, the firefighter's wage account was in an overdraft position for several periods in July, August, September and October. A month end comparison of the overdraft amounts with the unexpended appropriation in the relevant sub-vote (26-13) revealed overexpenditures in August and September. For example, in September the situation was as follows:

Overdraft in bank account	$71,179
Balance in appropriation 26-13	357
Overexpended appropriation	$70,822

It is my opinion that overdraft conditions in excess of unexpended appropriations constitute overexpenditures of the relevant appropriation.

In the Department's response to a similar comment in my internal control memorandum for the year ended March 31, 1981, it was stated:

"The fire suppression appropriation is set at the nominal amount of $500,000, in spite of fixed program costs in the $1.5 million dollar range. All funding to support the activities of this program must be initially provided by virement from other programs. This process often cannot respond to the financial requirements in a timely enough manner to prevent overexpenditure in the suppression appropriation.

In July, 1980 the department raised the accountable advance level to $965,000. In spite of these efforts, with the heavy 1980 fire season, the bank account was overdrawn and because of the above virement situation the appropriation was exceeded."

In my view, the use of unrealistic estimates and extensive reliance on the virement procedure jeopardizes the integrity of the process of legislative scrutiny and authorization of government spending plans.

2.4.1.2 Appropriation Exceeded - Purchase of Property

In a management letter to the Department of Finance I made the following observation:

In January of 1982, a voucher for the purchase of real property was sent to the Comptroller's Office from the Department of Government Services. A letter accompanying the voucher stated that a cheque for $663,900 was to be presented at a public ceremony. The letter stated that the sub-vote to which the voucher should be charged did not have sufficient funds and that a virement could not be processed in time to generate the cheque, although one was in process. The coding of the voucher had been altered to charge another sub-vote which had sufficient funds. The letter further stated that when a virement was processed, a journal voucher would be prepared to correct the miscoding. The Comptroller's Office proceeded to process the voucher as submitted. It was noted that the virement was not processed until a month later at which time a correcting journal voucher was prepared and processed.

Subsection 59(4) of The Department of Finance Act states:

"The Comptroller shall reject a requisition if he is of the opinion that the payment:

(a) would not be a lawful or proper charge against the appropriation; or

(b) would result in an expenditure in excess of the appropriation."

It would appear that, in the circumstance outlined above, the provisions of subsection 59(4) appear not to have been complied with and accordingly this expenditure was made in excess of the appropriation and was applied in a manner not authorized by the Legislature. In addition, the requisition appears not to have been properly vouched for lawfulness and propriety by the Department of Government Services.

2.4.2 Overcommitments of Appropriations

Section 57(1) of The Department of Finance Act, Chapter D-15, R.S.S. 1978, states:

"No department of the public service or branch or agency thereof shall, in any fiscal year, contract any indebtedness in that fiscal year greater than the unencumbered balance in the relevant appropriation for that year."

The schedule of budgetary expenditure for the Consolidated Fund (Pages C16-C41 of Public Accounts) indicates that certain overcommitments have occurred as a result of accounts payable exceeding the unexpended balance of the relevant appropriation. Overcommitments occurred in five appropriations of the Consolidated Fund in 1981/82 totalling $848,450. In 1980/81 overcommitments in ten appropriations totalled $7,188,565.

The schedule of budgetary expenditure for the Saskatchewan Heritage Fund (Pages C43-C46 of Public Accounts) indicates that an overcommitment occurred in one appropriation in 1981/82 in the amount of $10,789,231. In 1980/81 overcommitments in four appropriations totalled $23,187,736.

2.4.3 Expenditures Without Authority

2.4.3.1 School Grants

My examination of the Department of Education, for the year under review, disclosed that a formal procedure had not been established to check all aspects of the grant calculations

prior to payments being made to the school boards. As a result of this weakness, overpayments totalling $169,453 occurred during the year and represent payments without authority.

2.4.3.2 Teachers' Superannuation Administration Expenses

Section 68 of The Teachers' Superannuation Act provides for the following:

> "Payment required for any of the purposes of this Act or for any expense incurred in its administration, including the necessary salaries, shall be made upon a requisition in writing, signed by the chairman, acting chairman or executive secretary of the commission, directing the issue of a cheque by the Minister of Finance for the amount named in the requisition; such direction shall be final and conclusive."

It was observed that all the administration expenses for the 1982 fiscal year relating to the Teachers' Superannuation Commission were being approved by Department of Education officials rather than the chairman, acting chairman or executive secretary of the Commission. This does not appear to be provided for by the Act. Accordingly, it appears that these expenditures were not properly vouched.

2.4.3.3 Beef Stabilization Payments to Producers

In the determination of beef stabilization payments to producers, the governing regulations exclude animals below grade C.

Because the accumulation of information required to make this calculation was not checked by a second person, there were instances where stabilization payments were made on Grade D and E animals. There were four instances in which overpayments to producers totalled $3,813. These overpayments represent payments without authority.

2.4.3.4 Special ARDA Program Grant

A payment of $14,128 was made to a farmer under the special ARDA Program for corrals, cattle shed and machinery repairs. The authority the Department of Industry & Commerce quoted for this payment was Section 4 of The Industry and Commerce Development Act.

Since Section 2 of The Industry and Commerce Development Act specifically excludes farming as a business enterprise for the purposes of the Act, it would appear that the $14,128 was paid without apparent authority.

2.4.3.5 Living Allowances - Department of Northern Saskatchewan

Under the Northern Training Program, Order-in-Council 961/75 provides authority for paying travel and sustenance allowance for trainees travelling to and from courses. For the 1981/82 year, trainees received living allowances totalling $81,000 while attending courses, although such allowances were not authorized by the Order-in-Council. Accordingly, I report that these payments were apparently made without authority. Further, the cumulative total of such payments made without adequate authority as reported in the current and three previous years totals $715,000.

2.4.3.6 Grants to Northern Schools

In previous years I have reported that there were errors in the calculation of school grants because of the lack of an effective calculation check by a second person. In 1981/82 audit tests revealed there were overpayments to two boards totalling $5,459. Accordingly, I report that these overpayments were made without authority.

2.4.3.7 Arts Board Grants

In my management letter to the Saskatchewan Arts Board for the year ended March 31, 1982 it was pointed out to the Board that grants in the amount of $813,768 were paid to organizations to promote activities such as music, arts and drama. I was unable to find any specific provision in The Arts Board Act which allows the Board to make such grants. Accordingly, it is my opinion that these grant payments were made without authority.

2.4.3.8 Loans - Department of Agriculture - Agricultural Supplies Advance Account

Section 14 of The Department of Agriculture Act states in part:

> "14.(1) The Minister of Finance may, upon the requisition of the minister, advance out of the consolidated fund such sums of money as are required:

(a) to purchase agricultural supplies for distribution and sale by the department to farmers, rural municipalities and other organizations for use in connection with agricultural operations; and

(b) to pay for necessary services in connection with such purchase, distribution and sale."

During the 1981-82 fiscal year, pursuant to an agreement with a company, the Department made cash advances to this company which were charged to the Agricultural Supplies Advance Account under section 14(1) totalling $634,021. However, the Department does not have statutory authority to make loans under section 14 of The Department of Agriculture Act. Accordingly, it is my opinion that the $634,021 loan to this company was made without authority and was not properly vouched for lawfulness and propriety.

At the time of my attendance at this Department, the loan to this company described above was in default since March 31, 1982. The department has made provision in the financial statements of the Agricultural Supplies Advance Account for its estimated losses on this loan in the amount of $250,000.

2.4.3.9 Deposit Accounts - Land Titles Offices

Order-in-Council 1288/79 directs: ".....that each Registrar shall pay to the Minister of Finance an amount equal to the fees actually received at each month end and that all fees assessed against deposit accounts with insufficient fees be recorded as an outstanding debit balance, be collected and paid in the subsequent month."

A review of the monthly statements submitted by the Land Titles Offices indicates that fees are being transferred to the Consolidated Fund by the various offices before the funds for the fees are actually received. This is accomplished by using the funds placed on deposit by other depositors.

It is my opinion that the portion of the payments to the Consolidated Fund which includes uncollected fees represents payments that are not in keeping with the terms of the Order-in-Council.

This matter was reported to the Legislative Assembly in my 1981 annual report.

2.4.3.10 Superannuation Allowances

The Municipal Employees' Superannuation Act was changed in 1973 so that all members of the former plan became members of the new plan. Amounts standing to the credit of members as at June 30, 1973 were frozen and were only to be used to underwrite or to buy annuities on behalf of the retiring members, as outlined in Section 19 of the new Act. A member retiring after July 1, 1973 is entitled to two types of pensions: (i) an annuity under the former plan based on accumulated credits to his account; (ii) an allowance under the new Act based on the number of years of contributory services as outlined in Section 22(1) of the Act.

Section 22(2) of the Act imposes the following restriction on the combined pension payable to a superannuate:

> "(2) The allowance resulting from the calculation in subsection (1) together with the amount of any other annuity purchased on behalf of a retiring member shall not exceed the lesser of:
>
> (a) $1,715 times the number of years of credited service not exceeding 35; or
>
> (b) an amount that is the product of:
>
> i) 2% per year of credited service not exceeding 35 years; and
> ii) the average of the best five years of salary paid to a member by an employer or employers."

When calculating the amounts payable to superannuates the Municipal Employees' Superannuation Commission does not apply this restriction, and as a result would appear to have been overpaying some superannuates for several years. In my opinion, these overpayments appear to be payments without apparent statutory authority.

2.4.4 Borrowing Authority Exceeded

i) Over the past several years, the Saskatchewan Research Council has grown from a research centre funded primarily by government grants and performing research of a general interest, to that of a research centre doing more and more contractual research of specific interest to individual customers. This shift in emphasis has meant that the Council, in order to perform

the contractual research, must temporarily finance the costs of that research until such time as these costs can be billed to the customer.

This has produced a situation where, at times, the Council has been forced into a bank overdraft position. During the year under review, the Council was in an overdraft position on numerous occasions and, in fact, as at March 31, 1982 the Council's bank was overdrawn in the amount of $731,366.

The Research Council Act makes no reference to borrowing money to temporarily finance the Council's activities. As a result, I am not aware of any statutory authority for the Council to borrow funds by means of an overdraft condition.

ii) During the 1981 year, the Saskatchewan Computer Utility Corporation (SaskComp) borrowed $575,000 from the Crown Investments Corporation (C.I.C.) on a short term basis which was subsequently converted to long term debt in December, 1981 at which time, a further $1 million (long term) was also borrowed from C.I.C. There is no evidence that the Board of Directors of SaskComp either directly authorized these transactions or delegated the authorization for such borrowings. In addition, the Lieutenant Governor in Council did not authorize these loans as required by section 13 of the Act.

iii) During the 1981 year, the Saskatchewan Water Supply Board borrowed $250,000 from the Crown Investments Corporation on a short term basis. No evidence of an authorizing Order-in-Council for this borrowing was made available to my representatives although such authorization is required under subsection 11(9) of The Water Supply Board Act.

iv) In my management letter to the Saskatchewan Medical Care Insurance Commission for the year ended March 31, 1982 it was pointed out that the Commission's general bank account was overdrawn by $239,743 at March 31, 1982. The Saskatchewan Medical Care Insurance Act makes no provision for the Commission to incur debt to make payments out of the fund and therefore, in my opinion, the bank overdraft of $239,743 was a debt incurred that was not properly authorized by the Legislature.

In addition, there were a further $2.9 million of cheques issued at March 31, 1982 in excess of the funds available in the Commission's bank account. The result of issuing these cheques is that the Commission has spent approximately $3.1 million in excess of the funds legally available to it.

2.4.5 Special Warrants

Under the authority of Section 58 of The Department of Finance Act the Lieutenant Governor in Council may issue a special warrant authorizing an expenditure not forseen or provided for or insufficiently provided for and such a warrant is deemed to be an appropriation for the fiscal year in which the warrant is issued. Section 26 of The Department of Finance Act requires that the Provincial Auditor shall call attention to every case in which he has observed that a special warrant authorized the payment of any money.

In this Province, it is the practice to include items in the supplementary estimates to cover the special warrants which have been issued during the course of the year, to the extent that it is anticipated expenditures will be made up to the year end. Expenditures which were originally made under the authority of a special warrant become expenditures approved in the supplementary estimates. At the date of printing of the Public Accounts the Supplementary Estimates for 1981-82 had not been passed by the Legislature in the form of an appropriations bill. Accordingly, the estimates figures included in schedule C of Public Accounts were identified as comprising the sum of the main estimates for 1981/82 and all special warrants issued (See pages C41 and C46 of Public Accounts - Volume I).

I can report that no expenditure was made under the authority of a special warrant which was not included in the supplementary estimates for 1981-82. These estimates were tabled in the Legislature in March, 1982 but had not been appropriated at the date of this report.

2.5 Reservation of Professional Opinion on Financial Statements

The reason for an independent professional opinion on financial statements is, generally, that the reader of the financial statements is unable to ascertain on his own that the financial statements prepared by management, reflecting their stewardship of the assets entrusted to them, have been

objectively and accurately prepared. Accordingly, legislation requiring the publication of financial statements normally provides for an auditor to act on behalf of the readers of the financial statements so as to provide a measure of assurance that the financial statements have been objectively and accurately prepared.

In some instances, a professional opinion on financial statements may contain reservations. Circumstances which may cause such reservations are described below:

- failure to adhere to generally accepted accounting principles (or other appropriate stated principles);
- inconsistency in the application of the accounting principles used;
- failure to disclose essential information;
- inability to obtain information essential to permit compliance with generally accepted auditing standards;
- disagreement or uncertainty as to valuation of assets or liabilities.

In 1981/82, the following audit opinions were expressed with reservation in connection with the financial statements of certain crown entities.

a) Department of Agriculture
Horned Cattle Trust Fund - Year Ended March 31, 1982
(Volume I Public Accounts Pages H4 - H6)

My auditor's report contained a reservation because financial information was not available to support the value of an investment recorded in the trust fund records.

The auditor's report reads as follows:

"I have examined the balance sheet of the Horned Cattle Trust Fund as at March 31, 1982 and the statements of revenue, expenditure and equity and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances, except as explained in the following paragraph.

Because financial information was not available for the Saskatchewan Hereford Sales Company Limited, I was unable to form an opinion on the carrying value of the investment in preferred shares totalling $135,000. Accordingly, I was not able to determine whether any adjustments might be necessary to investment in Saskatchewan Hereford Sales Company Limited, expenditure, excess of expenditure over revenue and equity.

In my opinion, except for the effect of adjustments, if any, which I might have determined to be necessary had I been able to form an opinion with respect to the carrying value of the investment in preferred shares described in the preceding paragraph, these financial statements present fairly the financial position of the trust fund as at March 31, 1982 and the results of its operations and the changes in its financial position for the year then ended in accordance with the accounting policies described in Note 1, applied on a basis consistent with that of the preceding year."

My report advises the reader of the financial statements that I was unable to form an opinion on the carrying value of the investment and, therefore, the reader of the financial statements is cautioned that adjustments to the amounts under the following captions in the financial statements, "investment in Saskatchewan Hereford Sales Company Limited", "expenditure", "excess of expenditure over revenue" and "equity" may be necessary depending upon the valuation of this investment.

b) Department of Northern Saskatchewan
Northern Construction Advance Account - Year Ended March 31, 1982
(Volume I Public Accounts Pages F47 - F55)

My auditor's report contained a reservation because sufficient appropriate audit evidence was not available for my examination to form an opinion with respect to the ultimate collection of an account receivable from the Northern Lights School Division #113.

The auditor's report reads as follows:

"I have examined the balance sheet of the Northern Construction Advance Account as at March 31, 1982 and

the statements of income, changes in financial position and amount due to Minister of Finance for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances, except as explained in the following paragraph.

Accounts receivable includes $2 million invoiced to the Northern Lights School Division #113 for the construction of several northern schools. The ultimate collection of this amount is contingent upon the receipt of funds by the School Division from the Federal Department of Indian Affairs and Northern Development or from future capital appropriation for cost over-runs in the Department of Northern Saskatchewan. The Federal Department of Indian Affairs and Northern Development do not acknowledge any indebtedness for these cost over-runs. Management believes that this amount is collectable in full from the Federal Department as historically the Federal Department has funded over-runs but if for some unforeseen reason the Federal Department does not provide the funds, the funds will be requested from the Legislature through a future capital appropriation of the Department of Northern Saskatchewan. Since the Federal Department has not acknowledged this indebtedness and since I am unable to verify a capital appropriation until an amount is appropriated, for these cost over-runs, by the Legislature, I am unable to form an opinion regarding the ultimate collection of this receivable. Accordingly, I am not able to determine whether any adjustments might be necessary to accounts receivable, net loss and amount due to Minister of Finance.

In my opinion, except for the effects of adjustment, if any, which I may have determined to be necessary had I been able to obtain sufficient information regarding the matter referred to in the preceding paragraph, these financial statements present fairly the financial position of the Advance Account as at March 31, 1982 and the results of its operations, the changes in its financial position and amount due to Minister of Finance for the year then ended in accordance with the basis of accounting as described in Note 1 to the Financial statements applied on a basis consistent with that of the preceding year."

My report advises the reader of the financial statements that I was unable to form an opinion on the carrying value of the account receivable in question and, therefore, the reader is cautioned that adjustments to the amounts under the following captions in the financial statements, "accounts receivable", "net loss" and "amount due to Minister of Finance", may be necessary depending upon the amount ultimately realized from the collection of this account receivable.

c) Department of Northern Saskatchewan
Northern Saskatchewan Economic Development Advance Account - Year Ended March 31, 1982
(Volume I Public Accounts Pages F65 - F70)

My auditor's report contained a reservation because sufficient appropriate audit evidence was not available for my examination to form an opinion on the valuation of the loans receivable.

The auditor's report reads as follows:

"I have examined the balance sheet of the Northern Saskatchewan Economic Development Advance Account as at March 31, 1982 and the statements of income, changes in financial position and amount due to the Minister of Finance for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances, except as explained in the following paragraph.

Because the records of the Advance Account did not contain sufficient appropriate documentation and evidence to properly assess the collectibility and valuation of loans receivable and because it was impracticable for me to extend my examination to obtain this information, I was unable to satisfy myself as to the value of loans receivable at March 31, 1982.

In my opinion, except for the effect of adjustments, if any, which I might have determined to be necessary had I been able to satisfy myself with respect to the value of loans receivable described in the preceding paragraph, these financial statements present fairly the financial position of the Advance Account as at

March 31, 1982 and the results of its operations and the changes in its financial position for the year then ended in accordance with the basis of accounting as described in Note 1 to the financial statements, applied on a basis consistent with that of the preceding year."

My report advises the reader of the financial statements that I was unable to form an opinion on the carrying value of the loans receivable and, therefore, the reader is cautioned that adjustments to the amounts under the following financial statement captions, "allowance for doubtful loans", "net loss" and "amount due to the Minister of Finance", may be necessary after sufficient evidence is provided to adequately assess the value assigned to the loans receivable.

d) Department of Northern Saskatchewan
Northern Housing Advance Account - Year Ended March 31, 1982
(Volume I Public Accounts Pages F56 - F64)

My auditor's report contained a reservation because sufficient appropriate audit evidence was not available for my examination to form an opinion on the amount recorded as an account receivable from Canada Mortgage and Housing Corporation.

The auditor's report reads as follows:

"I have examined the balance sheet of the Northern Housing Advance Account as at March 31, 1982 and the statements of income, changes in financial position and amount due to Minister of Finance for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances, except as explained in the following paragraph.

Pursuant to an agreement dated April 2, 1979 between Government of Canada, Canada Mortgage and Housing Corporation (C.M.H.C.) and the Province of Saskatchewan, the Northern Housing Advance Account is responsible for developing and financing housing projects for residents of Northern Saskatchewan, with the cost of such projects and revenue being shared 75:25 by C.M.H.C. and the province respectively. The Advance Account invoices C.M.H.C. for their share of

the costs upon completion of projects and an account receivable is recorded. Note 2 to the financial statements sets out $13.3 million as due from C.M.H.C. for completed projects. Included in this amount is $5.3 million for C.M.H.C.'s share of costs in excess of the originally agreed estimated costs, as provided for in the agreement, to complete certain housing projects in Northern Saskatchewan. The Advance Account has recorded an equal amount as a long term liability captioned "C.M.H.C. Participation" in the financial statement in order that all interest earned and subsidies required to amortize the loans, can be shared on the originally agreed upon cost sharing ratio of 75:25 between C.M.H.C. and the province respectively. The C.M.H.C. does not acknowledge this indebtedness, but is willing to negotiate a settlement for sharing the total cost over-runs on all the northern housing projects including those which are still in the process of completion. Since these negotiations are still ongoing, I am unable to form an opinion regarding the ultimate collection of this account receivable. Accordingly, I am unable to determine whether any adjustments might be necessary to interest revenue, accounts receivable, mortgage and investment in housing projects, net loss and amount due to Minister of Finance.

In my opinion, except for the effects of adjustments, if any, which I may have determined to be necessary had I been able to obtain sufficient information regarding the matter referred to in the preceding paragraph, these financial statements present fairly the financial position of the Advance Account as at March 31, 1982 and the results of its operations, the changes in its financial position and amount due to Minister of Finance for the year then ended in accordance with the basis of accounting as described in Note 1 to the financial statements applied, after giving retroactive effect to the change in accounting policy, with which I concur, for the sale of public housing as explained in Note 10 to the financial statements, on a basis consistent with that of the preceding year."

My report advises the reader of the financial statements that I was unable to form an opinion on the carrying value of the account receivable from Canada Mortgage and Housing

Corporation and, therefore, the reader is cautioned that adjustments to the amounts under the following financial statement captions, "interest revenue", "accounts receivable", "mortgages and investments in housing projects", "net loss" and "amount due to Minister of Finance", may be necessary depending upon the amount ultimately realized from the collection of this account receivable.

e) Western Development Museum - Year Ended March 31, 1982

My auditor's report contained a reservation because my examination of donations and government grants was limited to the verification of the amounts recorded in the accounts as the system of internal control was inadequate to ensure completeness of these sources of revenue.

The auditor's report reads as follows:

> "I have examined the balance sheet of The Western Development Museum Fund as at March 31, 1982 and the statement of revenue and expenditure and fund equity for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances, except for donations and grants from the Government of Canada where my examination was limited to the verification of amounts recorded in the accounts.
>
> In my opinion, except for the effect of adjustments, if any, which I might have determined to be necessary had I been able to satisfy myself as to the completeness of donations and grants from the Government of Canada, these financial statements present fairly the financial position of The Western Development Museum Fund as at March 31, 1982 and the results of its operations and the changes in its fund equities for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year."

My report advises the reader of the financial statements that I was unable to form an opinion as to the completeness of donations and government grant revenue and that the financial statements would require adjustment if the amounts recorded are not complete.

f) Westside Community College - Administration & Capital Funds - Year Ended June 30, 1981
(Volume I Public Accounts Pages H96 - H100)

The auditor's report for these funds of this college for the year ended June 30, 1981 contained a reservation of opinion by the auditors, Horning & Brown, Chartered Accountants.

The auditor's report reads as follows:

"We have examined the balance sheets of the Westside Community College as at June 30, 1981, and the statements of revenue and expenditures for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and included such tests and other procedures as we considered necessary in the circumstances, except as explained in the following paragraph.

Our examination indicated serious deficiencies in the accounting records and in the system of internal control. As a consequence, we were unable to satisfy ourselves that all revenues and expenditures were properly classified and recorded.

These financial statements replace the financial statements issued under the auditor's report dated October 23, 1981. The financial statements have been restated to reflect a misclassification of funds received as previously reported. This misclassification is detailed in note 6 of the financial statements.

In our opinion, except for the effects of adjustments, if any, which we might have determined to be necessary had the accounting records been properly maintained, that the balance sheets present fairly the financial position of the College's Administration and Capital Funds as at June 30, 1981, and the results of the operations of the Administration Fund for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year."

g) Westside Community College
- Buffalo Narrows Training Centre Fund
- Program Fund
For the Year Ended March 31, 1982

The auditor's reports for these funds of this college for the year ended March 31, 1982 each contained reservations of opinion by the auditors, Horning & Brown, Chartered Accountants.

The auditor's reports read as follows:

Buffalo Narrows Training Centre Fund

"We have examined the balance sheet of Westside Community College - Buffalo Narrows Training Centre Fund as at March 31, 1982 and the statement of revenue and expenditures for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and included such tests and other procedures as we considered necessary in the circumstances, except as explained in the following paragraph.

Our examination indicated serious deficiencies in the accounting records and in the system of internal control. As a consequence, we were unable to satisfy ourselves that all revenues and expenditures were properly classified and recorded.

In our opinion, except for the effects of adjustments, if any, which we might have determined to be necessary had the accounting records been properly maintained, the financial statements present fairly the financial position of the College's Buffalo Narrows Training Centre Fund as at June 30, 1982 and the results of the operations of the Fund for the year then ended in accordance with generally accepted accounting principles."

Program Fund

"We have examined the balance sheet of Westside Community College - Program Fund as at March 31, 1982 and the statements of revenue and expenditures for the Program Fund for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and included such tests and other

procedures as we considered necessary in the circumstances.

Our examination indicated serious deficiencies in the accounting records and in the system of internal control. As a consequence, we were unable to satisfy ourselves that all revenues and expenditures were properly classified and recorded.

In our opinion, except for the effects of adjustments, if any, which we might have determined to be necessary had the accounting records been properly maintained, these financial statements present fairly the financial position of Westside Community College's Program Fund as at March 31, 1982, and the results of the Fund's operation for the year then ended in accordance generally accepted accounting principles applied on a basis consistent with that of the preceding year."

It is noted that the financial statements for these two funds of this college and auditor's reports thereon were not published in the 1982 Public Accounts although a Treasury Board Regulation appears to require such publication.

2.6 Other Matters

2.6.1 Authorization for the Underwriting of Guaranteed Life Annuity Contracts - Public Employees' Superannuation Plan

In a management letter concerning the Public Employees' Superannuation Plan, I recommended that legal advice be obtained to determine whether or not sufficient authority had been provided to the Supervisory Board of the Plan with respect to the underwriting of guaranteed life annuities and with respect to the disposition of any surplus or deficit arising from such operations.

Under the terms of each guaranteed life annuity issued, the superannuating employee, spouse or other beneficiary becomes entitled to a certain payment stream, the determination of which is based upon actuarially determined factors. Because of the nature of life annuity operations, the Public Employees' (Government Contributory) Superannuation Fund may incur a surplus or deficit on these operations. The disposition of any such surplus or deficit has not been dealt

with in the governing legislation nor has a separate fund been established to separately account for the annuity operations being conducted. The creation of a separate fund would facilitate the segregation of the life annuity operations from the collection and investment of employee and employer contributions.

In an opinion subsequently obtained by Plan officials from the Department of the Attorney General, it was indicated that, instead of purchasing an annuity contract for a retiring employee, the annuity benefits to which a retiring employee would be entitled may be paid from the fund but subject to the overriding limitation that any such annuity benefits provided from the Fund to the retiring employee over subsequent years could only be provided from the amount standing to that employee's credit in the Fund. This would include the amounts accruing to the retired employee's credit through the investment of the amount that was standing to his credit in the Fund at the date of retirement. It was further indicated that, in paying any annuity benefits to a retired employee, there is no authority to encroach upon other assets or monies in the Fund other than those standing to the credit of the retired employee.

In the opinion of the Attorney General's Department, it was recognized that a serious problem could arise if the amount standing to the credit of the retired employee in the Plan was insufficient at some point in time to pay to him the annuity benefits which were indicated to him he would be receiving. For this reason it was agreed that there was a need for amendments to existing legislation to deal with the deficit problem as well as the disposition of any surplus arising upon the death of an employee.

I recommend that consideration be given to amending the existing legislation governing the Public Employees Superannuation Plan to clarify the provisions of the plan in connection with underwriting guaranteed life annuity contracts, including the procedures for determining and disposing of surpluses and deficits arising from annuity operations.

2.6.2 Deficit Payment - Department of Agriculture - Agricultural Supplies Advance Account

Section 14(3) of The Department of Agriculture Act states:

> "Any amount in the account of the advances made under this section not required by the department at the end of a fiscal year shall be paid to the Minister of Finance and shall form part of the consolidated fund; and any deficit in the account at the end of a fiscal year shall be charged by the Minister of Finance to the department for the next following fiscal year."

The advance account suffered a loss of $189,653 for the year ended March 31, 1981. This loss of $189,653 was not charged to the Department's appropriation in the 1981-82 fiscal year as required by Statute.

2.6.3 Crown Investments Corporation of Saskatchewan

In my 1979 report to the 19th Legislature, I reported that while, in my opinion, the consolidated financial statements of the Crown Investments Corporation of Saskatchewan which are tabled in the Legislature provide useful financial information as to the overall operating results and the overall financial position with respect to the property administered by all of the consolidated crown corporations, consideration should be given to the tabling of additional financial statements for the Crown Investments Corporation which would provide to the Legislature the financial position, results of operations and changes in financial position with respect to the corporation's property, per se.

This matter is brought forward for the consideration of the 20th Legislature.

2.6.4 Authorization of Transactions - Saskatchewan Housing Corporation

In a management letter to the Saskatchewan Housing Corporation I indicated that Order-in-Council authorization had not been obtained for the amounts paid to the Corporation from the Consolidated Fund in the 1980-81 or 1981-82 fiscal years, as appeared to be required under the provisions of section 36 of The Saskatchewan Housing Corporation Act. The Order-in-Council last issued in 1979 was reviewed by the Corporation's general counsel and he rendered an opinion that the Order-in-Council was authority for the Minister of Finance

to pay to the Corporation such monies as may be appropriated by the Legislature from time to time and that no further Order-in-Council was necessary before the Corporation was able to receive future appropriations from the Minister of Finance. In the view of independent legal counsel retained by me a blanket Order-in-Council covering all funds presently appropriated or which may be appropriated in the future would be ultra vires. I recommend that the provisions of section 36 of this legislation be reviewed to determine if the wishes of the Legislature can be clarified.

Clarification is also required with respect to the application of the existing regulations issued under the Saskatchewan Housing Corporation Act. Recent correspondence with independent legal counsel suggests that certain regulations issued in earlier years may, in fact, apply to programs introduced since that time for which no new or amended regulations were introduced. Evidently this interpretation was not held by the Corporation since the regulations were not always amended in recent years to reflect new eligibility criteria, etc., as new programs were introduced. Because of limitations contained in regulations issued in earlier years, there may be a lack of appropriate statutory authority for the operation of certain current programs. This matter is being further studied both by the Corporation and by my staff.

Although both the Corporation's legal counsel and counsel retained by my office agree that, as the legislation currently reads, regulations authorized by cabinet are not necessary for any program, it is my view that such regulations should be issued and kept current under the authority of section 15 of the Act. If this practice is followed, Cabinet authorization and the opportunity for review by the Regulations Committee of the Legislature is permitted, both of which are important elements to ensure that programs with a widespread effect on individuals and with a potentially significant impact on the Province's financial resources are appropriately reviewed and approved.

3.

OBSERVATIONS ON THE FINANCIAL STATEMENTS OF THE GOVERNMENT OF SASKATCHEWAN

3.1 Introduction

My audit opinions on the financial statements of the Consolidated Fund, the Saskatchewan Heritage Fund and the Combined Funds for the 1981/82 year were made solely with respect to the presentation of the financial affairs of the funds in accordance with the stated accounting policies and, accordingly, no opinion was expressed by me on the appropriateness of the various accounting policies employed. A research study recently issued by the Canadian Institute of Chartered Accountants supports the practice whereby legislative auditors draw attention to inappropriate accounting treatment. The study states that until such time as government accounting principles are established by some independent means, legislative auditors have little alternative but to identify situations where they have concerns as to the accounting treatment. Although the study goes on to suggest that reservations with respect to accounting practices should be described in the auditors' reports on financial statements as well as being discussed in the Annual Reports presented to their respective Legislatures, I have continued the past practice for the 1982 fiscal year pending more authoritative support from pronouncements of such bodies as the Public Sector Accounting and Auditing Committee of the Canadian Institute of Chartered Accountants.

The following observations concern certain existing significant accounting policies affecting the principal financial statements of the Province.

3.2 Saskatchewan Heritage Fund Reserves

The Saskatchewan Heritage Fund financial statements include appropriated reserves within the equity portion of two divisions of the Fund. The identification of reserves in financial statements is normally associated with a duly authorized restriction on the use of the assets of the entity in question. If appropriate authorization is not to be obtained in this connection, I would recommend the practice of designating reserves in the Saskatchewan Heritage Fund financial statements be discontinued.

3.3 Offset of Interest Revenue and Interest Expenditure

A policy of offsetting interest received on short-term advances to crown corporations against interest paid on the government's share of public debt was adopted in the 1982 fiscal year. Although supplementary disclosure of the gross figures and the relevant amounts offset is made in the Statements of Budgetary Revenue and Expenditure, as a result of the above practice, total budgetary revenue and expenditure for the current year have both been reduced by $22,987,597 in the consolidated fund and combined funds financial statements from the amounts which would have been reflected under the previous practice. In my view, the previous practice more appropriately reflected the result of the Province's operations in conformity with the statutory and budgetary authorizations which gave rise to the transactions.

In correspondence with the Comptroller's Office it was indicated that temporary loans raised under the authority of either The Department of Finance Act or The Saskatchewan Loans Act have traditionally been for the purpose of funding ordinary expenditures of the Consolidated Fund by reason of the insufficiency of funds currently available. These reasons have been recited in the authorizing Orders-in-Council and thus interest expense incurred on such loans should be a charge upon the ordinary operations of the Consolidated Fund. Further, short- term advances to crown corporations have been made under the provisions of Section 36 of The Department of Finance Act, which permit the investment of funds "not presently required for expenditure". Presumably, these investments have been made out of interest free funds on deposit in the Consolidated Fund from other crown entities. Accordingly, it appears the interest revenue earned from these advances should be classified as budgetary revenue since there is, in essence, no corresponding interest expense.

I have also indicated in correspondence that if the government's objective is to finance certain short-term needs of crown corporations through the Consolidated Fund rather than through the Crown Investments Corporation or directly by the individual Corporations from other sources, it should only be necessary to extend the present practice with respect to long-term advances, that is the authorizing Orders-in-Council would cite that the proceeds of a borrowing were to be used for the purpose of funding advances to a crown corporation. To give effect to such plans from a budgetary perspective it would appear necessary to include the estimated amounts of interest payments on such borrowings (and related

reimbursements from crowns) in the non-budgetary vote established for the purpose (see vote 57 in the 1981/82 estimates). If such measures were taken the operating procedures would not differ from those currently in place with respect to long-term loans and advances, the only difference being the term of the advance. The accounting practice with respect to long-term advances developed because of its conformity with the statutory and budgetary authorizations which have traditionally been employed and appear equally appropriate for all advances, regardless of the respective terms.

However, in the absence of such measures being taken, the traditional method of disclosing the interest revenue and interest expenditure would appear to be the more appropriate method.

3.4 Revenue Cut-Off Policy

In April, 1982, the Federal government passed Bill C-97, (An Act to amend the Federal-Provincial Fiscal Arrangements and Established Programs Financing Act, 1977 and to provide for payments to certain Provinces). Following passage of the Act, the Federal government paid accrued entitlements of the crude oil export charge to Saskatchewan totalling $273 million. The funds were deposited in April, 1982 and recorded to the credit of the Saskatchewan Heritage Fund in the 1981/82 and 1982/83 fiscal years as follows:

Amount accrued November, 1980 - March, 1981	$109,058,000	1982/83
Amount accrued April, 1981 - January, 1982	163,984,000	1981/82
	$273,042,000	

The division of this revenue between the two fiscal years was based on an interpretation by the Comptroller's Office of the provisions of Section 38 of The Department of Finance Act which state:

> "The revenue of any fiscal year may be received at the office of the treasurer and placed to the credit of the account of that fiscal year on or before April 30 in the following fiscal year."

The interpretation as it was applied in this case regarded the portion of oil export tax attributable to the period November, 1980 - March, 1981 as 1982-83 revenue because it related to 1980-81 and therefore was not considered subject to the 30 day cut-off rule.

Another interpretation of this clause is that "revenue of a fiscal year" is revenue, which, if received in that year would have been treated as revenue "over which the Legislature has power of appropriation", pursuant to Section 33 of The Department of Finance Act, and accordingly would have been recorded as budgetary revenue if received prior to March 31 of that year. This interpretation would permit the inclusion of all revenue accruing for periods up to and including the current fiscal year, if received in April of the following year, to be included in revenue of the current year. Such a practice would appear to be in keeping with suggestions made in the study "Financial Reporting by Governments", published by the Canadian Institute of Chartered Accountants.

The study recognized that the measurement of a government's financial position is quite different from that appropriate for profit-seeking enterprises. For that reason, the study suggested that a government's recorded assets and liabilities should contain only known liabilities requiring the future outlay of cash to discharge them, and the assets it can realize to obtain such cash. The study felt that this objective could be accomplished by utilizing the modified cash basis of accounting. To follow this line of reasoning from "an accounting viewpoint", it would seem that if an item received prior to March 31 could be appropriately regarded as revenue of that year, then, if the same item were to be received within a prescribed cut-off period thereafter, e.g. 30 days, it would also be regarded as revenue of that year since the intention of providing the specified period after year end is to attempt to identify many of the significant financial transactions for a given fiscal year which in effect constitute assets at the accounting date i.e. realizable income to facilitate the discharge of the government's obligations at the accounting date.

Had the entire amount of the crude oil export charge revenue received in April, 1982 been included in 1981/82 revenue, the revenues of the Saskatchewan Heritage Fund and the Combined Funds would each have been increased by $109,058,000 (with a corresponding reduction in 1982-83 revenues).

3.5 Recognition of Equalization Adjustments at Year End

Further to the discussion of the revenue cut-off policy in Section 3.4, if monies received are to be repaid in future accounting periods it would appear appropriate to classify such amounts as liabilities in the same manner as proceeds from public debt, rather than as budgetary revenue, so as to more fully disclose the state of the Consolidated Fund at the year end. It should be noted that the Government of Canada reflects equalization overpayments to the Provinces as assets in its financial statements published in the Public Accounts of Canada.

If the equalization monies received from the Government of Canada in 1981/82 which were determined to be repayable to the federal government at March 31, 1982 (in large measure over a five year time period) had been classified as liabilities rather than as revenue, the budgetary revenue of the Consolidated Fund and of the Combined Funds would have been reduced by $113.1 million in 1981/82.

3.6 Carrying Value of Loan to the Saskatchewan Grain Car Corporation

In my 1981 Report to the Legislative Assembly I stated that the carrying value of the loan to the Saskatchewan Grain Car Corporation, recorded in the financial statements of the Combined Funds as an asset of the Province of Saskatchewan, is questionable in view of the fact that the Corporation lacks sufficient revenue to repay the loan without assistance by way of legislative appropriation. An amount of $9.3 million was paid from the 1981/82 Consolidated Fund appropriation of the Department of Agriculture in order to enable the Corporation to meet its loan repayment requirements to the Saskatchewan Heritage Fund. A similar amount was included in the 1982-83 estimates tabled in the Legislature in November, 1982.

As I stated in my 1981 Report to the Legislative Assembly, it would appear that the grain cars owned by the Saskatchewan Grain Car Corporation have the character of capital assets, the accounting policy for which is outlined in note 1E to the financial statements of the Combined Funds. The accounting practice reflected by the present carrying value of the loan to the Corporation is not consistent with that of reflecting capital assets in the financial statements at nominal value.

3.7 Internal Accounts

As mentioned in my previous Reports to the Legislative Assembly, certain internal accounts currently reported as assets and liabilities do not meet the definitions recommended in the "Report on the Study of the Accounts of Canada", a study undertaken on the initiative of the Federal Treasury Board and carried out jointly with the staffs of the Federal Departments of Finance and Supply and Services. The general purpose of the study was to review the purposes, principles and practices which should govern the form of the accounts of Canada with the object of ensuring that the information provided in the accounts is fair, complete and accurate.

"Internal accounts" reported as assets are the working capital advances which totalled $164,294,359 at March 31, 1982 ($149,634,935 at March 31, 1981). These advances represent primarily deferred expenditures chargeable to appropriations in subsequent years, in accordance with authorizing legislation. The Study of the Accounts of Canada recommended that assets of the Government be defined as financial claims acquired by the Government on outside organizations and individuals as a result of events and transactions prior to the accounting date and accordingly that working capital advances, which are not primarily used to record such financial claims, should be deleted from the Statement of Assets and Liabilities (i.e. Statement of Financial Position).

In order to determine the applicability, to Saskatchewan, of the findings of the report, the Select Standing Committee on Public Accounts and Printing recommended in 1978 "that a study be undertaken to determine whether or not changes should be incorporated in Saskatchewan in the manner in which we deal with working capital advances." Note 10A to the Consolidated Fund financial statements explains that a decision was taken by Treasury Board to introduce, in the 1982-83 fiscal year, the measures necessary to discontinue the practice of reflecting working capital advance account expenditures as such in the statement of financial position in subsequent years.

"Internal accounts" reported as liabilities represent spending authority carried forward to subsequent years. The Study of the Accounts of Canada recommended that liabilities of the Government be defined as its financial obligations to outside organizations and individuals as a result of events and transactions prior to the accounting date and,

accordingly, that undisbursed balances of appropriations to special accounts be deleted from the Statement of Assets and Liabilities.

"Internal accounts" reported as liabilities in the Statement of Financial Position of the Consolidated Fund (and the Combined Funds Statement) of the Province at March 31, 1982 totalled $339,380 (1981 - $933,181).

APPENDIX

Sections 20 to 32 of The Department of Finance Act, Chapter D-15, R.S.S. 1978

20.(1) The Lieutenant Governor in Council shall under the Great Seal of the Province of Saskatchewan appoint an officer to be called the Provincial Auditor who shall hold office during good behaviour and shall be removable for cause by the Lieutenant Governor on address of the Legislative Assembly.

(2) There shall be paid out of the consolidated fund of the province to the Provincial Auditor a salary as determined by the Lieutenant Governor in Council.

(3) The provisions of The Public Service Superannuation Act shall apply to the Provincial Auditor.

(4) Such officers and employees as are necessary to enable the Provincial Auditor to perform his duties shall be appointed in accordance with the provisions of The Public Service Act.

(5) Notwithstanding subsection (1), the Lieutenant Governor in Council may appoint, and fix the remuneration of, a person to temporarily perform the duties of the Provincial Auditor during a vacancy in the office of Provincial Auditor or during any period when the Provincial Auditor due to illness or other causes is unable to perform his duties; but the provision of subsection (1) that provides for removal for cause by the Lieutenant Governor in Council on address of the Legislative Assembly does not apply in respect of a person appointed under this subsection.

(6) Notwithstanding subsection (5), where a person who has been appointed to temporarily perform the duties of the Provincial Auditor is subsequently appointed Provincial Auditor he shall be entitled to remuneration at the salary mentioned in subsection (2) with effect from the date on which he commenced to perform the duties of the Provincial Auditor or the date on which the vacancy became effective whichever date last occurs.

21.(1) Notwithstanding anything in any Act, the Provincial Auditor shall have free access, at all convenient times, to all files, documents and other records relating to the accounts of every department, and he shall be entitled to require and receive from members of the public service such information, reports and explanations as he may deem necessary for the proper performance of his duties.

(2) The Provincial Auditor may station in any department any person employed in his office to enable him more effectively to carry out his duties, and the department shall provide the necessary office accommodation for any such person so stationed.

(3) The Provincial Auditor shall require every person employed in his office who is to examine the accounts of a department pursuant to this Act to comply with any security requirements applicable to, and to take any oath of secrecy required to be taken by, persons employed in that department.

(4) The Provincial Auditor may suspend from the performance of his duty any person employed in his office.

22. The Provincial Auditor shall examine in such manner as he may deem necessary the accounts relating to the consolidated fund and to public property and shall ascertain whether in his opinion:

(a) the accounts have been faithfully and properly kept;

(b) all public money has been fully accounted for and properly disposed of, and the rules and procedures applied are sufficient to secure an effective check on the assessment, collection and proper allocation of the revenue;

(c) money expended has been applied to the purposes for which it was appropriated by the Legislature and the expenditures have adequate statutory authority;

(d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public property.

23.(1) Notwithstanding any other provision of this Act, the Provincial Auditor shall not be required to audit or report upon the accounts of any board, commission, Crown corporation or other agency of the Crown if the Lieutenant Governor in Council or the Treasury Board has, in accordance with statutory authority, designated another auditor to examine and report upon the accounts of such board, commission, Crown corporation or other agency of the Crown, and, in order to fulfil his responsibilities under this Act, the Provincial Auditor may rely upon the report of that designated auditor.

(2) Notwithstanding subsection (1), the Provincial Auditor shall have the right to request and obtain from any board, commission, Crown corporation or other agency of the Crown, or its auditors, any information that is, in the opinion of the Provincial Auditor, necessary to enable him to fulfil his responsibilities under this Act, and such board, commission, Crown corporation or other agency of the Crown shall upon request obtain and furnish to the Provincial Auditor that information.

24. The Provincial Auditor shall:

(a) cause to be examined debentures and other securities of the province which have been redeemed and shall assure himself that such securities have been properly cancelled;

(b) at such time and to such extent as may be required by the treasurer, participate in the destruction of any redeemed or cancelled securities or unissued reserves of securities.

25. The Provincial Auditor shall examine and certify in accordance with the outcome of his examinations the several statements required by section 66 to be included in the public accounts, and any other statement that the treasurer may present for audit certificate.

26.(1) The Provincial Auditor shall report annually to the Legislative Assembly the results of his examinations and shall call attention to every case in which he has observed that:

(a) any officer or employee has wilfully or negligently omitted to collect or receive any money belonging to Saskatchewan;

(b) any public money was not duly accounted for and paid into the consolidated fund;

(c) any appropriation was exceeded or was applied to a purpose or in a manner not authorized by the Legislature;

(d) an expenditure was made for which there was no authority or which was not properly vouched or certified;

(e) there has been a deficiency or loss through the fraud, default or mistake of any person;

(f) a special warrant authorized the payment of any money;

and to any other case that the Provincial Auditor considers should be brought to the notice of the Assembly.

(2) The report of the Provincial Auditor in respect of a fiscal year shall be laid before the Assembly by the treasurer in accordance with The Tabling of Documents Act and if the treasurer does not, so present the report of the Assembly, the Provincial Auditor shall transmit the report to the Speaker for tabling in the Assembly in accordance with that Act.

27. The Provincial Auditor shall examine in such manner as he may deem necessary:

(a) the accounts of all special purpose funds and trust funds administered by a department, board, commission or other agency of the Crown;

(b) any accounts that are, by an Act, required to be examined by the Provincial Auditor;

(c) such other accounts as the Lieutenant Governor in Council, the Treasury Board or the treasurer may designate as being subject to examination by the Provincial Auditor;

and the Provincial Auditor shall satisfy himself that:

(d) all money has been fully accounted for and properly disposed of;

(e) all disbursements have been in keeping with the purpose of the fund or the terms of the trust;

(f) the accounts have been faithfully and properly kept.

28. The Provincial Auditor shall certify in accordance with the outcome of his examinations the financial statements that are required to be published, if any, of each special purpose fund and trust fund, or, if statements are not required to be published, shall report his findings to the responsible minister.

29. The Provincial Auditor shall, whenever the Lieutenant Governor in Council, the board or the treasurer directs, inquire into and report on any matter relating to the financial affairs of Saskatchewan or to public property and on any person or organization that has received financial aid from the Government of Saskatchewan or in respect of which financial aid from the Government of Saskatchewan is sought.

30. Any report of the Provincial Auditor to the Lieutenant Governor in Council or the board shall be made through the treasurer.

31. Whenever it appears to the Provincial Auditor that any public money has been improperly retained by any person, he shall forthwith report the circumstances of that case to the treasurer.

32. The Provincial Auditor may examine any person on oath on any matter pertaining to any account subject to audit by him and for the purposes of any such examination the Provincial Auditor may exercise all the powers of a commissioner under The Public Inquiries Act.